

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 CIAE-00

DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 AID-05 PC-01 EB-07 FRB-03 TRSE-00

COME-00 OMB-01 INT-05 OES-03 XMB-02 /078 W

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TO SECSTATE WASHDC IMMEDIATE 9559

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TAGS: PINT, PFOR, EFIN, UY

SUBJ: BACKGROUND OF VEGH'S PENDING RESIGNATION

REF: MVD 2735

1. SUMMARY: EMBASSY HAS RECEIVED BROADER BACKGROUND INFORMATION ON THE RESIGNATION OF MINISTER OF ECONOMY VEGH VILLEGAS AND THE RESULTING GOU CRISIS. IN DISPUTE ARE BOTH BROAD QUESTIONS OF ECONOMIC POLICY AND CIVILIAN-MILITARY RELATIONS. LEADING MILITARY OFFICIALS CONTINUE TO MEET ON THIS ISSUE, BUT RESOLUTION OF ISSUE IS NOT EXPECTED BEFORE END OF WEEK, IF THEN. IN THE MEANTIME, MINISTER VEGH HAS GONE TO BA (WHERE HIS FAMILY RESIDES) AND IS NOT EXPECTED TO RETURN BEFORE WEDNESDAY AT THE EARLIEST. END SUMMARY.

2. IMMEDIATE ISSUE ON WHICH VEGH SUBMITTED HIS RESIGNATION WAS CONTROVERSY OVER PLANNED SIGNATURE OF \$110 MILLION FOREIGN LOAN AGAINST PLEDGE OF GOLD. USE OF GOLD RESERVES HAS LONG BEEN SENSITIVE ISSUE HERE. VEGH HAS ALSO, AND PERHAPS MORE IMPORTANTLY, BEEN HAVING OTHER PROBLEMS WITH THE MILITARY RECENTLY, SPECIFICALLY OVER HIS EFFORTS TO CONTROL GOU DEFICIT, BY ENFORCING STRICTER FINANCIAL MANAGEMENT THROUGHOUT GOVERNMENT. HE HAD REPORTEDLY PROPOSED SHARP CUTS IN THE MILITARY BUDGET AND OBJECTED TO THE FAILURE OF MILITARY/POLICE FORCES TO MAKE CURRENT
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PAYMENT FOR FUELS PURCHASED FROM STATE PETROLEUM AGENCY, ANCAP. THIS,

PLUS PROBLEM OF SLOW PAYMENT BY UTE (STATE ELECTRICITY MONOPOLY) FOR FUEL OIL, HAS LED ANCAP TO DELAY TURNING OVER GAS TAX RECEIPTS TO TREASURY. VEGH FEELS SPECIAL RESPONSIBILITY FOR THIS, AS BUDGET DEFICIT

IS SUBJECT TO IMF TARGET.

3. IN THIS ATMOSPHERE, BOR VICE-PRESIDENT GENERAL RAIMUNDEZ SENT A MEMORANDUM THROUGH MILITARY CHANNELS LAST WEEK (REPORTEDLY TO JUNTA DE GENERALES) IN WHICH HE SAID IT IS UNNECESSARY TO PLEDGE GOLD TO OBTAIN SUFFICIENT INTERNATIONAL CREDITS GIVEN THE CURRENT INCREASED INFLOW OF PRIVATE CAPITAL, I.E. ARGENTINE FLIGHT CAPITAL. HE ALSO OBJECTED TO OTHER ASPECTS OF VEGH'S POLICY, SPECIFICALLY IMPORT LIBERALIZATION. A SOURCE IN THE MINISTRY OF ECONOMY AND FINANCE TELLS US RAIMUNDEZ' MEMORANDUM ACTUALLY REPRESENTS THINKING OF EX-FINANCE MINISTER MOISES COHEN, WHO FOLLOWS MORE TRADITIONAL STATE INTERVENTIONIST ECONOMIC LINE. WE ARE TOLD THAT AFTER INCONCLUSIVE DISCUSSION IN ESMACO AND THE JUNTA DE LOS GENERALES, RAIMUNDEZ' MEMORANDUM WAS PRESENTED TO CB PRESIDENT GIL DIAZ AND VEGH. VEGH REFUSED TO DISCUSS THE ISSUE, AND AT THIS POINT OFFERED HIS "INDECLINABLE" RESIGNATION TO PRESIDENT BORDABERRY.

4. PRESIDENT WOULD NOT ACCEPT THE RESIGNATION, BUT ASKED VEGH TO MEET WITH MILITARY CINCS, WHICH MEETING TOOK PLACE AUG 9. WHILE ONE SOURCE TELLS US CINCS OFFERED TO LET GOLD LOAN BE SIGNED, MEETING WAS REPORTEDLY ACrimonious AND INCONCLUSIVE. TWO SOURCES TELL US THAT VEGH INSISTED ON THE FOLLOWING TERMS BEFORE HE WOULD WITHDRAW HIS RESIGNATION: (A) THAT HE BE PERMITTED TO CONDUCT WITHOUT INTERFERENCE ECONOMIC POLICY AGREED TO IN IMF STANDBY; AND (B) THAT THE DIRECTORS OF THE BOR (INCLUDING GENERAL RAIMUNDEZ), UTE, ANCAP, AND PERHAPS SOME OTHER STATE ENTITIES BE REPLACED BY PERSONS OF VEGH'S CONFIDENCE. ANOTHER SOURCE SAYS ISSUE HAS BECOME PERSONALIZED AND VEGH'S OPPONENTS ARE NOW SEEKING HIS REMOVAL RATHER THAN POLICY CHANGE. VEGH'S PROBLEMS ARE COMPOUNDED BY HIS ABRUPT STYLE, AND SOME MILITARY LEADERS FIND HIM INSUFFICIENTLY DEFERENTIAL

6. COMMENT: WHILE GENERAL RAIMUNDEZ, BACKED BY GENERAL ALVAREZ, PROVOKED THIS LATEST CONFRONTATION, IT WOULD SEEM THAT MINISTER VEGH SAW AN OPPORTUNITY TO GAIN UNCHALLENGED CONTROL OVER

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KEY INSTRUMENTS OF ECONOMIC POLICY. ON AUG 8, VEGH UNEXPECTEDLY ANNOUNCED AT A MEETING OF THE CONSEJO DE ESTADO THAT THE GOU PRICE CONTROL AGENCY, COPRIN, WOULD BE ABOLISHED AT THE BEGINNING OF NEXT YEAR IF THE TREND OF ECONOMIC CONDITIONS THEN WERE SUITABLE. WHILE LINKING THIS TO THE STATED OBJECTIVES OF THE

LA NIRVANA AND SAN MIGUEL DECLARATION, THE SURPRISE ANNOUNCEMENT AT THIS TIME SUGGESTS THROWING DOWN THE GAUNTLET TO THOSE WHO FAVOR

CONTINUED STATE CONTROL OF THE ECONOMY.

7. VEGH'S TIMING MAY BE RELATED TO HIS KNOWLEDGE OF RUMORED ESMACO PLANS TO OUST HIM AND HE IS EVIDENTLY TRYING TO FORCE THE GOU TO DEFINE BOTH ECONOMIC POLICY AND CIVILIAN-MILITARY RELATIONSHIPS. VEGH MAY FEEL THAT HIS LEVERAGE WOULD BE SEVERELY REDUCED ONCE THE EXTERNAL LOANS ARE SIGNED AND HIS ABILITY TO MANAGE THE ECONOMY WOULD CONTINUE TO BE IMPAIRED BY INCONCLUSIVE BATTLES WITH THE GROUP CENTERED AROUND RAIMUNDEZ AND GENERAL ALVAREZ.

8. ON THE ONE HAND, IF VEGH RESIGNATION IS ACCEPTED, IT IS LIKELY THAT THE \$110 MILLION LOAN WILL BE CANCELLED OR DELAYED. THIS WOULD PUT THE BLAME ON THE MILITARY FOR BLOCKING EXTERNAL ASSISTANCE NEEDED TO COVER THE CRITICAL BOP SITUATION. ON THE OTHER HAND, YIELDING TO VEGH'S TERMS MAY SET A PRECEDENT FOR A CIVILIAN MINISTER FORCING THE REMOVAL OF A MILITARY FIGURE AND, IN SO DOING, BECOMING PERHAPS THE MOST POWERFUL MEMBER OF THE CABINET. AS A MATTER OF STYLE AND POLITICS, THE ARMED FORCES, AS DISTINCT FROM THE ALVAREZ-RAIMUNDEZ GROUP, CAN BE EXPECTED TO STRONGLY RESIST ANY RESOLUTION WHICH APPEARS IN THIS LIGHT. ANOTHER DIFFICULTY FOR THE GOU IS THAT A DECISION TO REMOVE RAIMUNDEZ WOULD ALSO IMPLY A CORRESPONDING DIMINUTION OF GENERAL ALVAREZ' INFLUENCE, AND IN SO DOING INEVITABLY FORCE A DEFINITION OF LOYALTIES IN THE ARMY COMMAND. HOWEVER, IF EXPERIENCE FROM PREVIOUS CIVILIAN-MILITARY CONFRONTATIONS HOLDS TRUE, SOME COMPROMISE SOLUTION, NOW DIFFICULT TO FORESEE, MAY STILL EMERGE.

9. THIS WEEK WILL BE A CRITICAL MOMENT OF DECISION FOR URUGUAY, FOR PRESIDENT BORDABERRY AND FOR THE COUNTRY'S MILITARY LEADERS--BRINGING DECISIONS ON WHICH FUTURE ECONOMIC AND POLITICAL STABILITY MAY GREATLY DEPEND.

10. GDS, SIRACUSA
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